

ORANGE COUNTY FLOOD CONTROL DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Santa Ana River Mainstem Flood Control Project

April 1, 1977, through December 31, 2002



JOHN CHIANG
California State Controller

June 2010



JOHN CHIANG
California State Controller

June 11, 2010

Mark Cowin, Director
Department of Water Resources
Post Office Box 942836
Sacramento, CA 94236-0001

Dear Mr. Cowin:

The State Controller's Office audited claims submitted by Orange County Flood Control District under the Flood Control Subventions Program.

The district claimed costs of \$85,965,384 for the Santa Ana River Mainstem Flood Control project (FCP) for the period of April 1, 1977, through December 31, 2002. Our audit disclosed that \$81,025,821 is allowable and \$4,939,563 is unallowable.

The unallowable costs of \$4,939,563 consisted of \$3,823,724 in costs that were specifically identified as ineligible and disallowed by the Department of Water Resources, \$493,339 in associated project costs that were allocable to the ineligible betterments, and \$622,500 in interest income not offset on claims.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Varda Disho, Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Lance Natsuhara, P.E. Manager
Santa Ana River Mainstem Project
Orange County Flood Control District
Mary Fitzgerald, Manager
Accounting Services
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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Orange County Flood Control District under the Flood Control Subventions Program. Our audit included costs incurred for the Santa Ana River Mainstem Flood Control Project for the period of April 1, 1977, through December 31, 2002.

The district claimed a total of \$85,965,384 for costs incurred from April 1, 1977, through December 31, 2002, for the Santa Ana River Mainstem Flood Control Project (FCP). Our audit disclosed that \$81,025,821 is allowable and \$4,939,563 is unallowable. The unallowable costs consisted of \$3,823,724 in costs that were specifically identified as ineligible and disallowed by the Department of Water Resources (DWR), \$493,339 in associated project costs that were allocable to ineligible betterments, and \$622,500 in interest income not offset on claims.

Background

The State of California provides financial assistance to local agencies participating in the construction of federal flood control projects. Under the Flood Control Subventions Program (State Water Code, Division 6, Part 6, Chapters 1 through 4), the California DWR pays a portion of the local agency's share of flood control project costs, including the costs of rights-of-way, relocation, and recreation and fish and wildlife enhancements.

State Water Code section 12832 authorizes the State Controller to audit the books and records of local agencies to determine whether the State funds received were expended for the purposes and under the conditions authorized.

Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Summary of Project Costs (Schedule 1) are allowable and in compliance with the DWRs' *Guidelines for State Reimbursement on Flood Control Projects*.

We conducted this performance audit under the authority of Government Code sections 12410. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown on the Summary of Project Costs (Schedule 1) and described in the Findings and Recommendations section. The district claimed a total of \$85,965,384 for costs incurred from April 1, 1977, through December 31, 2002, for the Santa Ana River Mainstem FCP. Our audit disclosed that \$81,025,821 is allowable and \$4,939,563 is unallowable. The unallowable costs consisted of \$3,823,724 in costs that were specifically identified as ineligible and disallowed by the DWR, \$493,339 in associated project costs that were allocable to ineligible betterments, and \$622,500 in interest income not offset on claims.

**Views of
Responsible
Official**

We issued a draft report dated March 12, 2010. James Tyler, Manager, Real Estates, Finance and Engineering, Santa Ana River Mainstem Project, responded by e-mail dated April 23, 2010, agreeing with the audit results.

Restricted Use

This report is solely for the information and use of the Orange County Flood Control District, the California Department of Water Resources, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 11, 2010

Schedule 1— Summary of Project Costs April 1, 1977, through December 31, 2002

<u>Project DWR Claim Number/ County Claim Number</u>	<u>Costs Claimed</u>	<u>Allowable Per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>	<u>State Share of Allowable Costs ²</u>
Santa Ana River Mainstem Project					
SAMO 2000-2B/1B	\$ 7,475,855	\$ 3,961,500	\$ (3,514,355)	Findings 1, 2	\$ 2,773,050
SAMO 92-1/10B	72,645	(70,989)	(143,634)	Finding 1, 2	(49,692)
SAMO 97-2A/31A	899,859	899,859	—		629,901
SAMO 2002-1A/40A	871,847	871,847	—		610,293
Amended/40B	971,382	971,382	—		679,967
SAMO 2003-01A/41A	398,604	395,717	(2,887)	Finding 1	277,002
Amended/41B	758,649	758,649	—		531,054
SAMO 2004-01A/42A	98,789	78,620	(20,169)	Finding 1	55,034
Amended/42B	174,728	174,728	—		122,310
SAMO 2003-02A/43A	20,474	20,666	192	Finding 1	14,466
Amended/43B	626,561	626,561	—		438,593
SAMO 2004-02A/44A	116,688	116,539	(149)	Finding 1	81,577
Amended/44B	1,094,540	1,094,540	—		766,178
SAMO 2004-03A/45A	11,489	647	(10,842)	Finding 1	453
Amended/45B	924,774	924,774	—		647,342
SAMO 2005-01A/46A	15,406	8,875	(6,531)	Finding 1	6,213
Amended/46B	1,181,433	1,181,433	—		827,003
SAMO 2005-02A/47A	69,901	69,203	(698)	Finding 1	48,442
SAMO 2005-02B/47B	465,187	422,552	(42,635)	Finding 1	295,786
SAMO 2005-03A/48A	30,210	30,210	—		21,147
SAMO 2005-03B/48B	535,947	488,398	(47,549)	Finding 1	341,879
SAMO 2005-04A/66A	62,655,772	62,029,647	(626,125)	Finding 1, 3	43,420,753
SAMO 2006-01A/49A	2,988,512	2,988,512	—		2,091,958
SAMO 2006-01B/49B	452,526	398,434	(54,092)	Finding 1	278,904
SAMO 2006-02A/50A	810	810	—		567
SAMO 2006-02B/50B	736,622	676,440	(60,182)	Finding 1	473,508
SAMO 2006-03B/51B	898,147	552,439	(345,708)	Finding 1	386,707
SAMO 2006-04A/52A	257,888	257,888	—		180,522
SAMO 2006-04B/52B	551,829	521,083	(30,746)	Finding 1	364,758
SAMO 2007-01A/56A	8,045	8,045	—		5,632
SAMO 2007-01B/56B	600,265	566,812	(33,453)	Finding 1	396,768
Totals	\$ 85,965,384	\$ 81,025,821	\$ (4,939,563)		\$ 56,718,075

¹ See the Findings and Recommendations section.

² The State share of allowable project costs represents the percentage of State funding, as stipulated in the California Water Code, for each project cost category.

**Schedule 2—
Summary of Audit Adjustments
April 1, 1977, through December 31, 2002**

<u>Project DWR Claim Number/ County Claim Number</u>	<u>DWR Adjustment (Finding 1)</u>	<u>Cost Allocated to Ineligible Betterments (Finding 2)</u>	<u>Interest Earned on Condemnation Deposits (Finding 3)</u>	<u>Total</u>
Santa Ana River Mainstem Project				
SAMO 2000-2B/1B	\$ (3,034,707)	\$ (479,648)	\$ —	\$ (3,514,355)
SAMO 92-1/10B	(129,943)	(13,691)	—	(143,634)
SAMO 97-2A/31A	—	—	—	—
SAMO 2002-1A/40A	—	—	—	—
Amended/40B	—	—	—	—
SAMO 2003-01A/41A	(2,887)	—	—	(2,887)
Amended/41B	—	—	—	—
SAMO 2004-01A/42A	(20,169)	—	—	(20,169)
Amended/42B	—	—	—	—
SAMO 2003-02A/43A	192	—	—	192
Amended/43B	—	—	—	—
SAMO 2004-02A/44A	(149)	—	—	(149)
Amended/44B	—	—	—	—
SAMO 2004-03A/45A	(10,842)	—	—	(10,842)
Amended/45B	—	—	—	—
SAMO 2005-01A/46A	(6,531)	—	—	(6,531)
Amended/46B	—	—	—	—
SAMO 2005-02A/47A	(698)	—	—	(698)
SAMO 2005-02B/47B	(42,635)	—	—	(42,635)
SAMO 2005-03A/48A	—	—	—	—
SAMO 2005-03B/48B	(47,549)	—	—	(47,549)
SAMO 2005-04A/66A	(3,625)	—	(622,500)	(626,125)
SAMO 2006-01A/49A	—	—	—	—
SAMO 2006-01B/49B	(54,092)	—	—	(54,092)
SAMO 2006-02A/50A	—	—	—	—
SAMO 2006-02B/50B	(60,182)	—	—	(60,182)
SAMO 2006-03B/51B	(345,708)	—	—	(345,708)
SAMO 2006-04A/52A	—	—	—	—
SAMO 2006-04B/52B	(30,746)	—	—	(30,746)
SAMO 2007-01A/56A	—	—	—	—
SAMO 2007-01B/56B	(33,453)	—	—	(33,453)
Totals	<u>\$ (3,823,724)</u>	<u>\$ (493,339)</u>	<u>\$ (622,500)</u>	<u>\$ (4,939,563)</u>

Findings and Recommendations

FINDING 1— Department of Water Resources adjustments

The district's claims included 3,823,724 in costs that were specifically identified as ineligible and disallowed by the Department of Water Resources (DWR). We concur with the DWR's determinations.

The DWR's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section VI, Part D, specifies that DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

As a result, costs totaling \$3,823,724 for the Santa Ana River Mainstem Project are unallowable, as detailed on Schedule 2 of this report.

Audit adjustment	<u>\$ (3,823,724)</u>
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Recommendation

The district should reduce its claims for reimbursements by \$3,823,724 for the Santa Ana Mainstem River Project. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

FINDING 2— Associated project costs allocable to ineligible betterments

The district's claims included \$493,339 in associated project costs that were allocable to ineligible betterments for the Santa Ana River Mainstem Project.

The DWR's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section VI, Part D, specifies that the DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

DWR Claim Number/ County Claim Number	Associated Costs					Profes- sional Services	Total
	Labor	Equip- ment	Supplies	Title			
SAMO 2000-2B/1B	\$ (436,874)	\$ (24,988)	\$ (6,559)	\$ (1,413)	\$ (9,814)		\$ (479,648)
SAMO 92-1/10B	(12,119)	(838)	(734)	—	—		(13,691)
Audit adjustment							<u>\$ (493,339)</u>

As a result, associated project costs totaling \$493,339 that were allocable to ineligible betterments of the Santa Ana River Mainstem Project are unallowable, as detailed on Schedule 2 of this report

Recommendation

The district should reduce its claims for reimbursements by \$493,339 for the Santa Ana River Mainstem Project. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

**FINDING 3—
Interest income not
offset on claim**

The district did not offset against claimed costs the Santa Ana River Mainstem Project's interest income of \$622,500 earned on condemnation deposits made by the DWR.

The DWR's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section VI, Part C1, requires that interest earned on deposits with the State Condemnation Fund be credited against claimed costs.

Year/ Month	Description	State Remit Advice	Condemna- tion Deposit Amount	Num- ber of Days	Total Dollar Days	Interest Factor	Interest Earned
Riverside County Cases (State Account #35100993334):							
<u>2005</u>							
August	Hatch Investments	ST114092	\$ 4,475,500	81	\$ 362,515,500	0.000078108096439	\$ (28,315)
	Hatch Investments	ST114349	1,045,000	16	16,720,000	0.000078108096439	(1,306)
	Jongsma	ST114260	33,540,000	37	1,240,980,000	0.000078108096439	(96,931)
November	Hatch Investments	ST114092	4,475,500	92	411,746,000	0.000087062411541	(35,848)
	Hatch Investments	ST114349	1,045,000	92	96,140,000	0.000087062411541	(8,370)
	Jongsma	ST114260	33,540,000	82	2,750,280,000	0.000087062411541	(239,446)
	Mendiondo	ST114473	13,290,000	19	252,510,000	0.000087062411541	(21,984)
<u>2006</u>							
February	Hatch Investments	ST114092	4,475,500	3	13,426,500	0.000099343756897	(1,334)
	Hatch Investments	ST114349	1,045,000	46	48,070,000	0.000099343756897	(4,775)
	Jongsma	ST114260	33,540,000	—	—	—	—
	Mendiondo	ST114473	13,290,000	—	—	—	—
Subtotal							(438,309)
San Bernardino County Cases (State Account #35100993645):							
<u>2005</u>							
August	Hettinga	ST114246	14,700,000	38	558,600,000	0.000078108096439	(43,631)
	Koning	ST114078	882,000	85	74,970,000	0.000078108096439	(5,856)
November	Hettinga	ST114246	14,700,000	80	1,176,000,000	0.000087062411541	(102,386)
	Koning	ST114078	882,000	92	81,144,000	0.000087062411541	(7,065)
	Koning	ST114798	668,000	33	22,044,000	0.000087062411541	(1,919)
<u>2006</u>							
January	Hettinga	ST114246	14,700,000	—	—	0.000099343756897	—
	Koning	ST114078	882,000	2	1,764,000	0.000099343756897	(175)
	Koning	ST114798	668,000	87	58,116,000	0.000099343756897	(5,774)
	Koning	ST115152	882,000	40	36,630,000	0.000099343756897	(3,639)
April	Koning	ST115152	270,000	90	24,300,000	0.000110472010404	(2,684)
July	Koning	ST115152	270,000	91	24,570,000	0.000124084536109	(3,049)
<u>2007</u>							
January	Koning	ST115152	270,000	92	24,840,000	0.000134957552956	(3,352)
February	Koning	ST115152	270,000	92	24,840,000	0.000139902872388	(3,475)
May	Koning	ST115152	270,000	31	8,370,000	0.000141704165907	(1,186)
Subtotal							(184,191)
Audit adjustment							<u>\$ (622,500)</u>

Recommendation

The district should offset its claims by interest income earned on condemnation deposits in accordance with DWR guidelines.

**State Controller's Office
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